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TO RUEHC/SECSTATE WASHDC PRIORITY 8150
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E.O. 12958: N/A

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SUBJECT: ANGANG STEEL HOPES TO GROW AT HOME AND ABROAD

11. Summary: Zhang Xiaogang, Chairman of Anshan Iron and Steel Corporation (AnSteel), recently discussed an impending meeting with John Surma, President of International Iron and Steel Institute and potential cooperation with U.S. Steel Executive Committee of the IISI in New York on July 12 and 13, 2007 Executive Committee of the IISI in New York on July 12 and 13, 2007, and what appears to be a nearly final deal with Ford Motor Company for AnSteel to provide sheet steel for Ford's auto body panels. Zhang also reported that the merger of AnSteel with Benxi Iron and Steel (BenSteel) was moving along, albeit slowly, and said that plans from the central government called for the merged company to eventually become the sole remaining steel company in northeast China. End Summary.

12. Before getting his visa for a previously unplanned, mid-July trip to the United States, Zhang Xiaogang, Chairman of AnSteel and new President of China Iron and Steel Association, told us how he had suddenly been invited by John Surma, President of International Iron and Steel Institute (IISI), to attend a meeting of the Executive Committee of the IISI in New York. Earlier in the month, Surma had unexpectedly visited AnSteel, China's second largest steel producer, specifically to invite Zhang to the meeting, and to encourage greater cooperation between Chinese and American steel producers. Zhang said Surma's visit took everyone by surprise, especially China's envious, Shanghai-based top producer, BaoSteel. Zhang will represent China at the IISI Executive Committee meeting in New York.

13. Zhang also reported that while the merger between AnSteel and BenSteel was moving along, complications had arisen due to the fact that AnSteel belonged to the National Assets Committee while BenSteel belonged to the Liaoning Provincial Committee. The merged company would eventually locate its headquarters in Shenyang, between the two satellite cities, and the name of the merged entity had yet to be determined. The merger was announced in August 2005, to be effective within three months, but the two companies still operated separately, and Zhang said the final merger would take even more time.

14. According to Zhang, all steel factories in the Northeast will be merged into a single corporation in the next few years and only four steel producers would remain in all of China. AnSteel hopes to cooperate with U.S. Steel in the near future to develop a joint production venture and also hopes to develop joint projects with German and Korean producers.

15. During his trip, Zhang was to visit Ford Motor Company in hopes of settling an agreement to supply automobile body sheets to Ford. Despite declining sales, Zhang stated that Ford possessed advantages in technology and management that made it an important for partner for AnSteel's participation in the U.S. market.

16. AnSteel's new plant in Bayuquan, Yingkou would be completed by June 2006, according to Zhang. He said the plant is advanced in terms of both capacity and environmental protection and estimated the cost of environmental safeguards at 60-70 RMB per ton of steel production. He said the environmental protection costs for the new plant are much higher than those for the old plants in Anshan proper. Zhang said that a senior Chinese national leader, as well

as senior representatives of the United States, German, Korean and Japanese steel industries, would attend the ribbon cutting and dedication ceremony for the new plant.

17. Looking at the overall development situation in the northeast, AnSteel's expansion indicates that the central government's much-reported move to discourage heavy polluting industries does not entail discouraging heavy industry in the northeast. There is, however, a real emphasis on making these industries less noxious. In addition to the new factory's environmental equipment, on July 19 AnSteel brought online China's largest blast-furnace, combined-cycle power plant. The plant captures blast-furnace exhaust and uses it to drive turbines producing 300 megawatts of additional power for the plant. AnSteel's original plan had been to build a coal-fired plant was changed to a combined-cycle design to reduce carbon emissions. Mitsubishi Heavy Industries provided the turbines for the plant.

Wickman